

# CORPORATE GOVERNANCE AND FIRM INTEGRATED PERFORMANCE: ISSUES, CHALLENGES, AND OPPORTUNITIES FACED BY NATION IN CRISIS

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## Abstract

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Literature on corporate governance (CG) and firm integrated performance (FIP) — accounting and finance performance (AFP), marketing performance (MP), logistics and supply chain performance (LSCP) — of organizations are rarely seen in addition to the empirical evidence on issues, challenges, and opportunities since of adhering to CG and FIP principles which is also hard to find. Besides, Sri Lanka declared itself bankrupt during mid part of 2022. It raised the question of whether the corporate sector really encountered unbearable risk and is nothing left as opportunities in sailing the nation without announcing its bankruptcy. Thus, the present study aims to set the light on the issues, challenges, and opportunities (a priori constructs) of the CG and FIP through structured qualitative study. The study adopted the secondary data and used the annual reports of S&P SL20 companies listed on the Colombo Stock Exchange (CSE) as the theoretical sample from the financial years 2019–2021. Researchers used content analysis and theoretical thematic analysis in identifying the key units of analysis in the annual reports and connecting them systematically to the a priori constructs. The study found that the risk level and the opportunity level were moderate the years right before the announcement of bankruptcy. Accordingly, it is concluded that Sri Lanka had a chance of avoiding the bankruptcy if the moderate level of risk and the opportunities were well managed.

**Keywords:** Corporate Governance, Firm Integrated Performance, Issues, Challenges, Opportunities

**Authors' individual contributions:** Conceptualization — N.N.; Investigation — C.M.; Resources — N.N. and C.M.; Writing — Original Draft — C.M.; Writing — Review & Editing — N.N.; Visualization — N.N.; Supervision — N.N.; Project Administration — C.M.

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## 1. INTRODUCTION

The corporate governance (CG) and firm integrated performance (FIP) benefit the organization. The essence of excellent CG will economically sustain

the business continuity, both profitability and growth, for the firm that implements it. Good CG is a set of guidelines for a management to follow in order to run the firm as efficiently as possible. The management will make financial decisions that

benefit all stakeholders involved in the firm (Budyanto & Hudiwinarsih, 2015). If the firm follows the most appropriate CG best practices, its financial outcomes improve. The organizations intend to be better in reaching its business goals by using CG best practices since business management practices may be accomplished in the best possible manner. According to the previous researchers, business entities promote CG to provide excellent signals to prospective investors, and regulatory authorities, including the government. They should promote an institutional CG culture that must be connected to firm performance across industries (Wanyama & Olweny, 2013). Moreover, CG of a firm is not only beneficial for current business functions, but also has an impact on future growth. The degree to which a CG is serious about adopting strong corporate culture determines its FIP. As a result, it would be consistent with the idea that effective CG is advantageous in improving the FIP. This is where Sri Lanka lost its confidence.

Sri Lanka was declared bankrupt by the Central Bank of Sri Lanka in mid part of 2022 since it was unable to meet the foreign debt servicing requirements. The bankruptcy was due to many reasons. Nagalingam et al. (2022) informs that it was not due to the COVID-19 pandemic or Easter Sunday attack, but the depression started well in advance. Accordingly, it is argued that the trust the foreign direct investors had on Sri Lanka and the resultant foreign direct investments to Sri Lanka had been ruining for considerable long period though it was not officially notified by authorities. Adding more, the CG and FIP in Sri Lankan context lost the credibility in the international market.

Many studies have focused on the CG and firms' performance. The CG has a favorable influence on company success (Rossi, Nerino, & Capasso, 2015). Furthermore, companies with a higher CG rating perform better in terms of market book value and return on equity (ROE) than companies with a lower CG rating. In addition, previous research has found that good CG has a positive and significant impact on profitability, liquidity, and the company's activities (Vo & Thuy, 2013). However, it must be noted that all the studies in this area did not confine to the same results. When standard performance metrics like return on investment (ROI) and ROE were used, they discovered no meaningful correlations between CG and performance (Prusty & Al-Ahdal, 2018). Anyway, most of the previous researchers measured FIP through return on asset (ROA) and ROE but there are also mixed results on the relationship between CG on FIP. However, this study does not deal with that subject matter. Instead, it concentrates on the economic crisis faced by Sri Lanka and raises the research question of what are the issues, challenges and opportunities exposed by the companies right before the nation was declared bankrupt. Thus, the present study aims to explore the issues encountered, challenges faced, and opportunities signaled from the point of view of CG and FIP in a nation in crisis (Sri Lanka).

The rest of the paper is organized as follows. Section 2 discusses the literature. Section 3 explains the research methodology adopted. Section 4 presents the results, Section 5 discusses the findings, and then Section 6 presents the conclusions.

## 2. LITERATURE REVIEW

The companies operating under crisis conditions need more attention on CG and the related best practices (Alodat, Salleh, Hashim, & Sulong, 2021). The CG is putting in place the structure, processes, and mechanisms necessary to ensure that the company is directed and managed in a way that maximizes long-term shareholder value by holding management accountable and improving organizational performance (Velnampy, 2013). Therefore, to increase performance, organization should integrate their key functions such as accounting and finance, marketing, logistics, and supply chain. In different circumstances, this integration influences the efficiency, scope, and flexibility of organizations, allowing them to fulfil changing requirements (Domadenik, Prašnikar, & Svejnar, 2016). On the other hand, it does not eliminate organizational issues and challenges, but it does offer new doors of opportunity.

Firms with the poor track record of CG must be regulated and given special concern by the nations (Pandey, Husain, Khan, & Singh, 2022). Generally, every organization has issues with regarded to their activities. A review of the earlier studies in this area is essential to understand the weaknesses and threats of organization performance. According to the past researchers, an ineffective and inefficient internal control mechanism is the major cause for issues (Chaudhury, 2020). On addressing the issues related to accounting and finance, the more difficult problems, organization had to deal with, were intertemporal issues, such as how income and expenses are assigned to different time periods and how specific assets and liabilities should be evaluated (Capie & Billings, 2001). Therefore, internal problems of accounting and finance should be controlled by the management. According to the past researchers, they point out process organization and process concerns have received insufficient attention in both internal marketing and external marketing issues (Ahmed & Rafiq, 2003). Moreover, Hansotia and Rukstales (2002) argue that, to increase sales and earnings, many businesses employ direct communications such as mailers, catalogues, websites, and e-mail. Operating with several channels presents numerous obstacles, and decision-making becomes more challenging as the channels frequently interact at the customer's discretion. Supply chain management executives have unique challenges when it comes to integrating supply chain specific plans with the overall corporate business strategy. In many cases, when corporations are seeking to save money or when anything goes wrong, they only pay attention to supply chain issues. Global process efficiency is crucial for successful corporate operations since the supply chain is the lifeblood of the firm.

The challenging problems of CG and FIP can be discussed with multiple perspectives. Based on CG, the main challenge that boards are currently confronting are the exponential increase in the number of risks and the difficulty in creating appropriate strategies. It is further noted that it is the job of management to establish proper controls to guarantee that the business is managed in an orderly and efficient manner, that the entity's assets are protected, that management policies are

followed, and that records are accurate and reliable (Kostyuk & Barros, 2018). According to the past researcher Karadag (2015), organization encounter a number of challenges, including a lack of managerial skills, a shortage of skilled staff, limited financial resources, and a low adoption of new technologies. Researchers and managers have several challenges when it comes to determining the best way to evaluate build brand awareness and market competition. The fact that brands can have a significant impact on how people react to brands and brand expansions, as well as the fact that brand equity has an impact on investors, and simultaneously poses a challenge. However, it is argued that one knows very little about the challenge of a brand on a branded product's long-term profitability (Clark, 2000). Organizations face several challenges when it comes to logistics and supply chain management. A company must be dedicated to focusing on costs of implementation, loss of confidence, inability to adjust to change, loss of product inimitableness, unnecessary liability, lack of security, uneven partner benefit, increased independence, and keeping up with changing expectations (Awad & Nassar, 2010).

It is critical for relevant companies to adapt to environmental change, as the degree of compatibility between organizations and their surroundings has an impact on their success. Therefore, opportunities are external factors that can help a company gain a competitive advantage. Past researchers mention that the positive relationship between CG and firm performance is dependent on a firm's investment opportunities. According to the accounting and finance performance (AFP), the combining IT and IT-enabled services has shown to be a long-term option for improved financial performance (Varghese & Viswanathan, 2018). This will reduce the need for physical workspace setup while also allowing the organization to save money. This provides advantage for use of multiple channels to work together as an integrated system. The effectiveness of an organization strategy is determined by the relative advantages a company has over its competitors in the marketplace. According to the past researchers, the organization pools its financial, physical, legal, organizational, informational, and relational resources to manufacture products/services, organize distribution channels, and generate communication/promotion. As a result, the marketing mix is the expression of these resources. Each company will have at least some resources that are unique and difficult to duplicate, resulting in a particular marketing mix (Ibrahim & Harrison, 2020). This makes significant positive competition advantage for organization as opportunity. Logistic and supply chain facilitate the transit alternatives for materials and product supply, manufacture, storage, and distribution. According to Awad and Nassar (2010), an opportunity product development and supply chain service times could be sped up dramatically with digital manufacturing. Nanotechnology has the potential to bring supply chain design to a whole new level. These opportunities, on the other hand, are beginning to emerge.

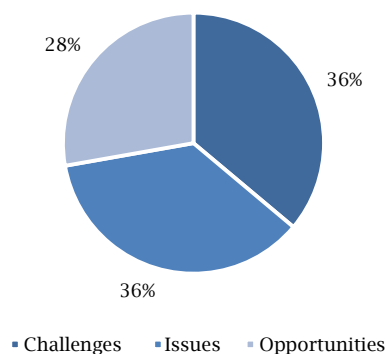
### 3. RESEARCH METHODOLOGY

The companies chosen for our study are listed on the Colombo Stock Exchange (CSE). As of June 30, 2021, there have been 303 firms listed in the CSE, representing various industrial categories, and researchers selected S&P SL20 companies as the theoretical sample since they are the leading business firms with good CG practices. As a result, it is mandatory for these companies to prepare an annual report, containing audited financial statements, in compliance with Sri Lanka Accounting Standards, Sri Lanka Auditing Standards, and distribute them to all the firm's shareholders and debt securities holders. The study stands with interpretivist stance and follows the inductive approach. Though it is an inductive approach since it has embraced with *a priori* constructs *viz.* issues, challenges, and opportunities it adopted the theoretical thematic analysis (Braun & Clerk, 2006). The trustworthiness of the study is instituted by having data only from the most recent annual reports (2019-2021). Themes can be produced in two ways: inductively or theoretically (Kiger & Varpio, 2020) where the study selected the theoretical method. First, the contents of the annual reports were analyzed to identify the codes and the higher order codes and then the theoretical thematic analysis was carried out to fix the codes with the *a priori* constructs (themes). Accordingly, the organization's overall performance in the areas of finance and accounting, marketing, logistics and supply chain were analyzed. Finally, the data driven codes (content analysis) were systematically fixed to the theory driven themes.

### 4. RESULTS

The data were analyzed using content and thematic analysis where they helped to identify patterns of words used and their repetitions from large volume of texts. The codes (Appendix) and themes (Figure 1) were developed to identify the issues, challenges, and opportunities of the organization integration with CG. The study found that the S&P 20 companies faced 36% issues, 36% challenges and 28% opportunities.

Figure 1. Themes classification



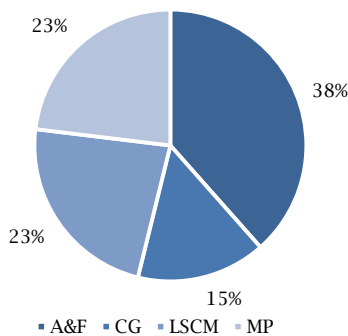
Source: Research data.

The aforesaid empirical classification is not seen in the literature. The classification is important for the businesses to design strategies to sustain their operations. The study further analyzed each component separately and present them in the below sections.

#### 4.1. Issues

Among the annual reports of S&P 20 companies, 36% of them had sizeable organizational issues and when segregated, 15% were related to CG, 38% were related to AFP, 23% were related to marketing performance (MP) and 23% were related to logistics and supply chain performance (LSCP) (Figure 2).

Figure 2. Issues



Source: Research data.

This above figure covers the issues of the CG and FIP in organizations. Many organizations had to deal with several issues related to various kinds of business activities. Therefore, organizations need to focus on what problems they must encounter in achieving the goals and about integrating the performances. According to the annual reports, when considering CG issues, one company stated that *“the corporation believes that improving CG is one of the most important issues for proper corporate management and is adopting a variety of steps to address it”*. Regarding the issues that contributed to this improvement, another annual report states: *“these are problems that can develop as a result of system and procedure failures, human mistake, fraud, a lack of internal control, and poor CG standards”*. As an external factor, government creates legal and regulatory frameworks for organizations and these facts build up/make issues on organization. Explaining further, it was highlighted in the annual report that *“the government issues orders for the wage structure of the organization”*. This created problems related to wages in organizations. However, external factors play a part in the creation of organizational issues as well.

The goal of every organization is to increase profitability. However, because of internal factors, organizations sometimes incur losses. Based on the organization financial stability, they may solve the issues regarding currency, liquidity, credit risk, investment risk and interest rate risk. One annual report disclosed that *“revenue declines, operating risk rises, asset quality falls, working capital shortage rises, gearing rises, and liquidity management issues arise”* are institutional issues from the firm’s point of view. Another annual report cites *“defend against*

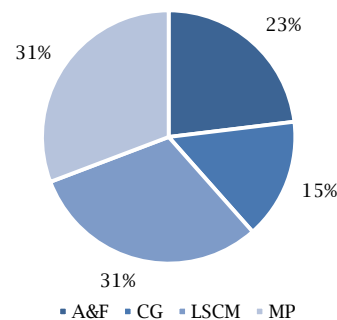
*finance limits that stifle expansion and fail to meet depositor/investor desires”*. On the other hand, according to another annual report, *“as a result of natural and human activities, due to insufficient internal controls, failures of internal processes, people, and systems are the risk which also has an effect on one’s reputation”*. If the reputation decreases, organization may lose its marketplace as well. On the other hand, there are several external factors that influence the organization losses, such as market competition and customer related issues. In support of this one annual report stated, *“changes in client attitudes due to bad economic and social conditions, loss of market share or market leadership in relevant segment due to severe rivalry from present and new competitors...”*.

Several annual reports confirmed that they face operational issues including lack of production technology. To identify the operational issues in an annual report disclosed that, *“Internal or external events that result in loss due to insufficient or failed internal procedures, personnel, and systems”*. For the production process, many reports identify that the inventory, logistic and supply chain issues are highly effected. Another annual report cites another problem facing the company, which is *“preventing growth and protecting it from financial constraints that meet the demands of depositors/investors”*.

#### 4.2. Challenges

Based on the S&P annual reports, 36% indicated that they have organizational challenges and when segregated 15% were related to CG, 23% were related to AFP, 31% were related to MP, and another 31% were related to LSCP (Figure 3).

Figure 3. Challenges



Source: Authors’ illustration.

Challenges are the difficulties that an organization faces in achieving the set of goals. During the study period, the organization’s most challenging struggle was to deal with the COVID-19 pandemic. One annual report cites that, *“the political uncertainty that preceded the presidential election due to terrorist attacks and the subsequent outbreak of the global epidemic is the biggest challenge for management in the fall of COVID-19 in 2020 and beyond”*. Falling in line with this statement, another annual report discloses that, *“market structure flaws, high-cost distribution channels, inadequate financial literacy, and rising healthcare expenditures all contribute to the industry’s issues, which were compounded by the COVID-19 epidemic”*. Despite

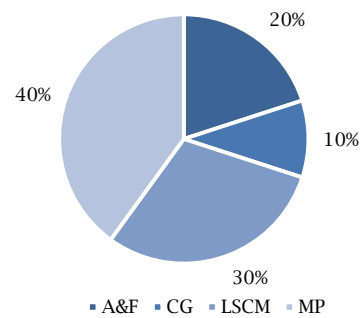
the pandemic, Sri Lankan organizations faced a setback with the Easter attack since April 2019. In addition, another annual report cites that, *“the terrorist incident on Easter Sunday, economic development, and fierce competition were among the problems that the financial year 2019 faced. As a result of these difficulties, as well as the looming election season, consumer and business confidence has plummeted”*. However, many annual reports identify those factors of Easter Sunday attack and COVID-19 pandemic affect the country’s economy, exchange rates and investment funds of organizations. According to another annual report, *“changes in foreign exchange rates have put the market at risk for the value of a financial instrument”*.

Another challenge faced by the organization is market competition. Due to high competition, the organization needs to develop new strategies that will create pricing mechanism, increase customer satisfaction, and enhance organizational reputation. To identify this challenge, an annual report states that, *“customer engagement, product accessibility, brand, quality and standards and product innovation and responsibility, are a challenge for the company to protect against competition in the marketplace”*. Global challenges are another task that organizations must face. As a result, an annual report states, *“the organization continued to face challenges due to volatile global markets. Major commodity prices continued to be slow, and the difficulties posed by restrictions and competition from global markets also affected the Sri Lankan plantation industry”*. Not only this, but also the environmental and other external factors have been powerful challenge for organizations. To identify that annual report states, *“the company has faced many challenges during the financial year, including the unfavourable prices, weather conditions and scarcity of fertilizers in the market”*. To be good/strong competitor organizations, firms need to change their technologies over time which is another challenge that organizations face. The annual report discloses that *“technological obsolescence may adversely affect performance”*. Changing technology over time is a strategy recommended for improving market share but from the standpoint of the organization this increases operational risk and requires high costs to develop employee skills. Modifiers of these operational strategies also affect organizational supply and supply chain performance. The annual report cites that, *“carrying FG inventory that isn’t sellable, RM or WIP merchandise that isn’t useable or obsolete is a challenge”*. To confirm this another annual report discloses that, *“during the year under review, the logistics industry faced considerable problems, owing to a decrease in domestic consumption and, as a result, a reduction in demand for logistics. Delays in outsourcing supply chain operations have also resulted because of this”*.

### 4.3. Opportunities

Out of all the S&P annual reports, 40% companies indicated that they had organizational opportunities and when it is separated 10% were related to CG, 20% were related to AFP, 40% were related to MP, and 30% were related to LSCM (Figure 4).

Figure 4. Opportunities



Source: Research data.

Organizations are constantly looking for opportunities in considering, evaluating, and pursuing market-based activities that provide market advantages. Furthermore, organization always strive to sustain its product and service portfolio as unique. Therefore, many organizations aim for innovations and convert these innovations to the many opportunities that are accessible through the market. An organization governance perspective enables organizations to provide flexible strategies for creative ideas that can materialize as innovations. One annual report cites that, *“the Board recognizes its role in innovation governance and, as a result, welcomes the creativity and flexibility that fosters creative thinking while also managing risk within the agreed-upon risk appetite”*.

According to data collection, organizations’ annual report states that, *“our exclusive technology, along with our knowledge, give us a significant competitive advantage that supports our expansion plans and enables us to achieve the returns on investment we want”*. This means that organizations gain investment opportunities through advanced technology. To reap the benefit of highlighting the financial stability in the market, the annual report further states that, *“continental Insurance’s rating has been affirmed at ‘A (Ika)’ by Fitch Ratings, indicating the company’s financial soundness”*. On the other hand, these market opportunities help to enhance the reputation of the corporate brand and also increase consumer awareness about their products and services. To convince this purpose, an annual report emphasizes that, *“growing consumer awareness creates tremendous potential for consumers and professionals to communicate digitally, empowering both”*.

Moreover, this brand reputation allows the organization to gain investment opportunities and thereby enhance operational excellence. Based on the annual report, *“operational excellence ensures quality and reliability of supplies”*. Therefore, organization could improve supply chain relationship. One annual report states that, *“attracting high-quality business partners is essential for maintaining supply chain operations”* is an opportunity to maximize operational excellence. Based on these facts, organizations need to further explore and investment in opportunities and market competition advantages.

## 5. DISCUSSION

The study generated a rating system of the issues, challenges, and opportunities viz. if the percentage of occurrence is 25% or less, then one star is given; if the percentage of occurrence is more than 25%

but 50% or less, then two stars are given; if the percentage of occurrence is more than 50% but 75% or less, then three stars are given, and if the percentage of occurrence is more than 75% but 100% or less, then four stars are given. Accordingly, the following inference was made as given in Table 1.

**Table 1.** Inference of issues, challenges, and opportunities

Item	A&FP	MP	LSCP	CG	Total	Risk/Opportunity
Issues	★ ★	★	★	★	5 stars	★ ★
Challenges	★	★ ★	★ ★	★	6 stars	★ ★
Opportunities	★	★ ★	★ ★	★	6 stars	★ ★

Source: Research data.

The maximum number of stars obtainable for each item under consideration is 16 (i.e., 4 times 4). However, the first item (Issues) has scored 5 stars, the second item (Challenges) has scored 6 stars, and the third item (Opportunities) has scored 6 stars. As a result, the study infers that the Sri Lankan corporate sector was facing moderate risk and moderate opportunities right before the announcement of the nation's bankruptcy. Accordingly, the study argues that Sri Lanka had a chance of mitigating the moderate risk and capitalizing the moderate opportunities as escaping measure of bankruptcy.

Though study focused in identifying the issues, challenges, and opportunities of companies in Sri Lanka during the turbulent environmental conditions, it found as a byproduct that most of the companies under review were ignoring the CG disclosures in their annual statements and this result that is a byproduct of this study is a shocking revelation and moreover these were leading companies and the available literature argues that CG disclosures lead for better organizational performance (Sabbar, Abdalamer, & Abdulhassan, 2021; Arora & Sharma, 2016; Al-Matari, Al-Swidi, & Fadzil, 2014). Therefore, one can conclude that non-disclosures of CG is a pivotal point for this slide down. This also has been attested in the past study that the negligence on the part of a company without proper CG result in massive bankruptcy and large loss of shareholder capital (Baker & Powell, 2009).

## 6. CONCLUSION

The study concludes that, during the years of 2019-2021, 72% of the disclosures by the companies were exposed to the issues and challenges regarding CG and FIP. The future researchers must concentrate on how the businesses could be made resilient in mitigating the issues and the challenges and

introducing a framework in reducing the risk of business failures in Sri Lanka. Contrary to the above set-back, fortunately, the study concludes that 28% of the companies had organizational opportunities during the turbulent environmental conditions. It is good to note that the study years are right before Sri Lanka was declared bankrupt. Yet, having 28% opportunities means a lot to the Sri Lankan businesses. However, the question arises whether they were capitalized by the Sri Lankan businesses in time which might have protected the nation from bankruptcy needs further research. The study further concludes that the risk and opportunity level of Sri Lankan corporate sector was moderate and if they were correctly had managed the nation would have escaped from the bankruptcy announcement. However, the nation declared bankruptcy. This leads room for future researchers to explore why the nation's corporate sector ignored the possibility of not being bankrupted. The study concludes that most of the companies under review had not reported the CG disclosures in their annual reports. This conclusion leads concerns for future researchers to tailor the studies to find why the leading companies in Sri Lanka are reluctant to disclose the CG practices. The study also concludes that some of the S&P 20 companies had only revealed the financial performance of their organizations and many of them have hardly discussed about the marketing and logistics performance. Overall, the study argues that it is the crying need of the day that Sri Lanka should develop strategies to face the issues and the challenges and make use of the opportunities in redeveloping the nation in crisis. The study was limited to the organizational functions such as AFP, MP, and LSCP. However, human resource performance (HRP) and information technology performance (ITP) are also main domains in an organization which could be extended by the future researchers.

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**APPENDIX**

**Table A.1.** Themes and codes structure

<i>A priori construct</i>	<i>Themes</i>	<i>Codes</i>
Issues	Corporate governance (CG)	Corporate governance issues
		Legal and regulatory risk
	Accounting and finance performance (AFP)	Company loss
		Interest rate issues
		Liquidity issues
		Credit risk
	Marketing performance (MP)	Investment risk
		Market competition
		Customer related issues
	Logistics and supply chain performance (LSCP)	Reputation risk
		Inventory risk
		Logistics and supply chain issues
Technology issues		
Challenges	Corporate governance (CG)	COVID-19 pandemic
		Easter Sunday attack
	Accounting and finance performance (AFP)	Pricing mechanism
		Exchange rate change
		Investment's funding
	Marketing performance (MP)	Customer satisfaction
		High competition
		Market risk
		Reputational risk
	Logistics and supply chain performance (LSCP)	Inventory risk
		Operational risk
		Information technology
Employer management		
Opportunities	Corporate governance (CG)	Innovation governance
	Accounting and finance performance (AFP)	Investment's opportunities
		Financial stability
	Marketing performance (MP)	Consumer awareness
		Market opportunities
		Product diversification
		Brand management
	Logistics and supply chain performance (LSCP)	Supply chain relationship
		Quality business partners
		Operational excellence